

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON EPHRAIM MOGALE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ephraim Mogale Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Cash and cash equivalents

7. The municipality could not provide sufficient appropriate audit evidence to indicate that steps have been taken to clear unallocated deposits of R1 107 970 appearing on the bank reconciliation as at 30 June 2010. Consequently, payables and receivables have been

overstated by R1 107 970.

Property, plant and equipment (PPE)

8. The municipality's accounting records did not facilitate the easy identification and location of assets recorded in the financial statements amounting to R108 213 247. As a result, I could not satisfy myself as to the valuation, rights and obligations, existence and completeness of property, plant and equipment. The municipality's records did not permit the application of alternative audit procedures.

Intangible assets

9. Documentation to support the intangible assets balance of R847 762 in the financial statements could not be provided. I was therefore, unable to determine the valuation and completeness of the intangible assets balance. The municipality's records did not permit the application of alternative audit procedures.

Trade and other receivables

10. Included in the trade and other receivables balance is a movement of R2 052 893 and R2 620 470 debited and credited respectively for which no documentation could be provided. Consequently, I was unable to satisfy myself as to the existence, valuation and completeness of these amounts included in the accounts receivables balance of R108 629 748. The municipality's records did not permit the application of alternative audit procedures.

Trade and other payables

11. The municipality could not provide sufficient appropriate audit evidence to support the balance of retention money of R2 424 952 included in trade and other payables and note 13 to the financial statements. The municipality's records did not permit the application of alternative audit procedures.

Revenue

12. The municipality could not provide sufficient appropriate audit evidence to support the grant received from its district municipality amounting to R21 792 410. There were no satisfactory alternative audit procedures that I could perform. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, completeness and occurrence of this transaction in the financial statements.

Budget information

13. The municipality has not disclosed the supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budgets, as prescribed by the Standard of Generally Recognised Accounting Practice, GRAP1, *Presentation of Financial Statements*.

Related Parties

14. Even though the municipality maintains the declaration of staff members interest forms where individual staff members declare their financial interests in companies and organisations, I was unable to confirm the completeness of the financial interest in companies and organisations as my audit procedures revealed businesses that were not declared for some of the section 57 managers.

Qualified Opinion

15. In my opinion, except for the effects of the matters described in the basis for qualified opinion

paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ephraim Mogale Local Municipality for the year ended 30 June 2010, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the MFMA.

Emphasis of matter

16. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

17. As disclosed in note 36 to the financial statements, the corresponding figures for the year ended 30 June 2009 have been restated as a result of an error discovered during 30 June 2010 in the financial statements of Ephraim Mogale Local Municipality at, and for the year ended, 30 June 2009.

Fruitless and wasteful expenditure

18. As disclosed in note 40 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R10 638 due to the following;

- R3 659 was incurred, as a result of interest paid to overdue accounts.
- A further amount of R6 233 was incurred for outstanding annual leave days owed to an employee which was paid in excess of the required 48 days of leave.
- R746 was incurred due to payments made to employees claiming kilometres travelled above the stipulated kilometres as per the municipality guidelines.

Irregular expenditure

19. As disclosed in note 41 to the financial statements, irregular expenditure to the amount of R2 247 980 was incurred by the municipality due to expenditure incurred in contravention with supply chain management regulations.

Unauthorised expenditure

20. As disclosed in note 39 to the financial statements, unauthorised expenditure to the amount of R4 579 537 was incurred as a result of a conditional grant that was utilised for purposes other than intended for.

Additional matter

21. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

22. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

Predetermined objectives

24. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are

reported below:

Non-compliance with regulatory and reporting requirements

Performance of service providers

25. The municipality did not disclose the performance of service providers in the annual performance report, as required by section 46 of the Municipal Systems Act (MSA).

Annual report does not have comparisons

26. The municipality's annual performance report did not reflect comparison of projects completed in prior year to the current year, as required in terms of section 46(1) of the MSA.

Measures to improve performance

27. The municipality's annual report did not reflect measures to improve performance where targets were not met, as required by section 46(1) of the MSA.

Usefulness of reported performance information

28. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Planned and reported indicators not well defined

29. For the selected, programmes, 21% of the planned and reported indicators were not clear, with an unambiguous definition to allow for data to be collected consistently.

Compliance with laws and regulations

Electricity Regulation Act, 4 of 2006

No approval for the increase in the electricity tariff

30. Contrary to section 15(2) of the Electricity Regulation Act, 2006 (Act no. 4 of 2006) the municipality did not submit an application to the National Energy Regulator of South Africa (NERSA) requesting approval for the increase in the electricity tariff of 31.3 %.

MFMA

The accounting officer did not adhere to his statutory responsibilities

31. Contrary to the requirement of section 62(1)(d) of the MFMA, the accounting officer did not comply with his legislative responsibilities to implement effective, efficient and transparent

processes of financial and risk management to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure.

32. Contrary to the requirement of section 62(1)(b) of the MFMA, the accounting officer did not take reasonable steps to ensure that full and proper records of the financial affairs was kept resulting in requested information not being available at the municipality.

The financial statements were not prepared in accordance with applicable legislation

33. Contrary to the requirements of section 122(1) of the MFMA, the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.
34. In terms of section 122(3) of the MFMA, the annual financial statements must be prepared in accordance with generally recognised accounting practice as determined by the Accounting Standards Board. The municipality have not provided all of the required supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, as prescribed by GRAP 1 *Presentation of Financial Statements*

Expenditure was not paid within the parameters set by the applicable legislation

35. Contrary to the requirements set out in section 65(2)(e) of the MFMA, the municipality did not pay money owing by the municipality within 30 days of receiving the statement or invoice for payments.

Existence and functioning of the audit committee

36. Contrary to the provisions of section 166 of the MFMA, the audit committee did not review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with this Act.
37. Contrary to section 166 (1) of the MFMA, the audit committee charter did not include matters relating to internal financial control, effective governance and performance management.

INTERNAL CONTROL

38. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
39. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

- *Oversight responsibility*

- The accounting officer does not exercise oversight responsibility over reporting and compliance by management with laws, regulations and internally designed policies and procedures. As a result, non-compliance issues were noted.

- **Financial and performance management**

- *Quality, reliable annual financial statements*

The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.

Adequate systems

Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed pertaining to the accounting system.

- **Governance**

Risk identification

Internal controls are not selected and developed to prevent/detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Fraud prevention

No fraud prevention plan was in place for the financial year under review; as a result no evidence that the municipality has specific measures for preventing and detecting fraud as required by section 62(1)(c) of the MFMA .

Internal Audit

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.

There is a limited focus on matters related to financial and performance reporting.

Audit committee

The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

Financial statements and performance reports are not reviewed prior to submission for audit.

Polokwane
14 March 2011



AUDITOR - GENERAL
SOUTH AFRICA

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